

Cash prices for all classes of cattle were sharply higher during May (figure 1). Seasonally, the increase is typical and reflects the relatively tight supply situation of fed cattle in summer. The futures pattern is more surprising as the deferred futures prices for live cattle are sharply higher compared to a month ago. The increase helped offset the high corn price, moving the deferred feeder futures prices higher. The weekly stocker cattle volume has tapered off and prices have been steady.

Of some concern is the basis on stockers, both now and this fall. Typically high corn translates into a weak or narrow basis. However, the market is also seeing unprecedented highs in live cattle futures. Basis on stockers cannot be “covered” using feeder cattle futures or options. A forward contract would lock in the basis. One other tool is Livestock Risk Protection (LRP), which has a price adjustment factor of 110 percent on beef steers weighing less than 600 pounds. The factor gives some basis protection on calves compared to using options. As of last Friday, LRP was available with several ending dates in the fall. Coverage could also be purchased that would give a floor price on calves above \$120 per cwt, even after paying the premium (figure 2). End dates of September 19, October 17, and November 14 would likely be appropriate for those selling calves this fall. Each end date has a range of coverage levels and premiums. For September 19, the highest coverage was 99% at a cost of \$4.42 (before the 13% subsidy). This implies a floor price over \$121 per cwt. The lowest coverage was 83% at a cost of only \$0.46, but a lower floor price of just over \$105 per cwt.

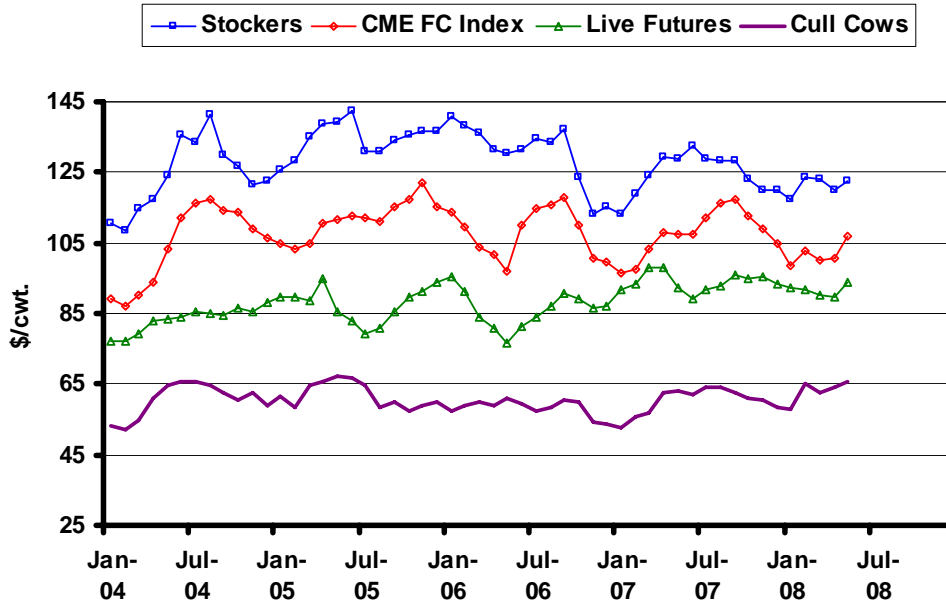
On the feed side, the release of Conservation Reserve Program (CRP) land for critical feed use was announced this month. Haying and grazing will be allowed on some CRP ground after the critical nesting period ends (which varies by state). The release has a large potential supply impact on the feed market for the beef sector. Most of the eligible CRP acres are located in the plains states (figure 3). The largest acreage blocks are concentrated in Texas, Montana, and Kansas and in general more acres are available in “beef” rather than “dairy” country. There are not many acres available in South Dakota relative to the existing hay acres and relative to other states. The absolute impact will most likely be felt in major feedlot states as the abundance of inexpensive and relatively poor quality hay will likely supply the feedlot industry. For South Dakota, this is a positive factor for stocker and feeder prices. The relative impact will be felt in slightly different ways (figure 4). When the CRP is added to expected hay supplies (from production and ending stocks), the increase from 2007 supply shows a substantial increase in the southeast states, Kansas, Colorado, North Dakota, and Montana. The net change in South Dakota is minimal.

The May WASDE report had minor revisions to the price projections which remain well below the futures prices at this time (figure 5). The ERS revised the feeder cattle projections sharply higher. The range of prices is close to the futures prices, not suggesting any clear strategy (figure 6).

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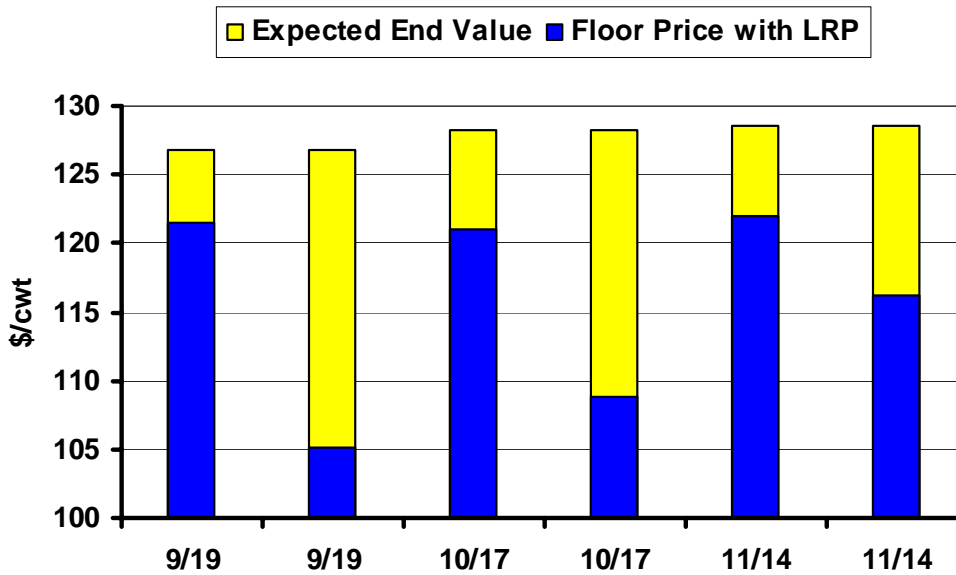
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**Fig. 1. Monthly South Dakota Cattle Prices**



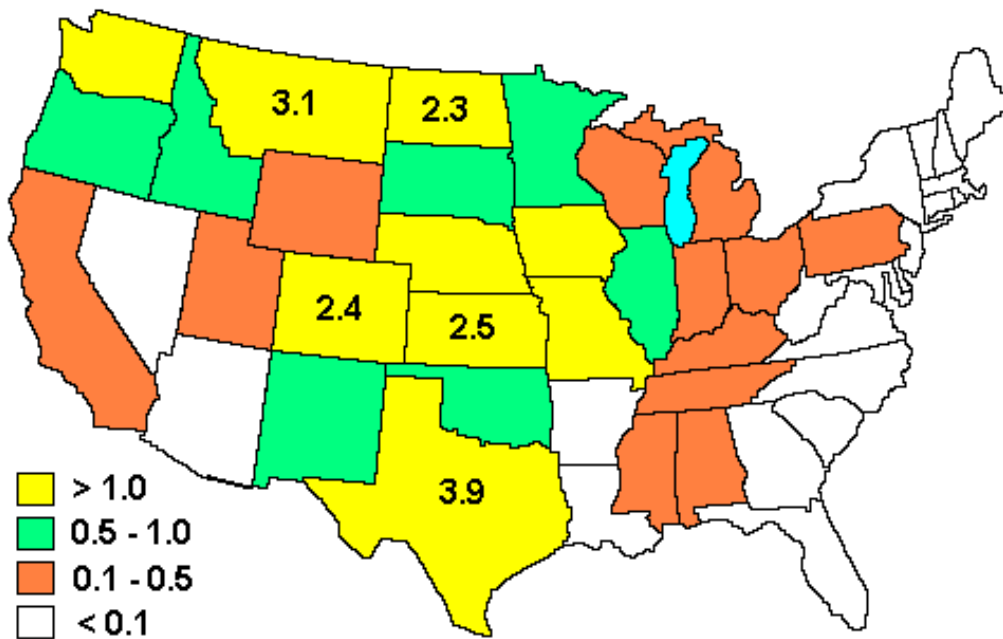
Sources: CME, USDA-AMS, & SDSU

**Fig. 2. Floor Range with LRP for Steer Calves**



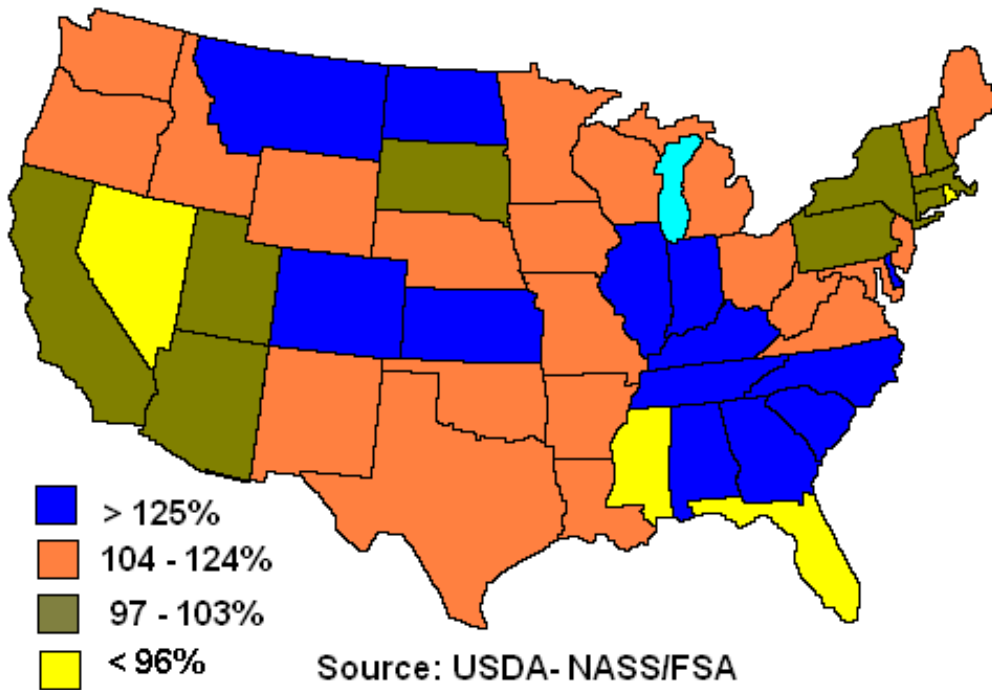
Source: USDA-RMA as of 6/20/08

Fig. 3. CRP Critical Feed Use (millions of acres)

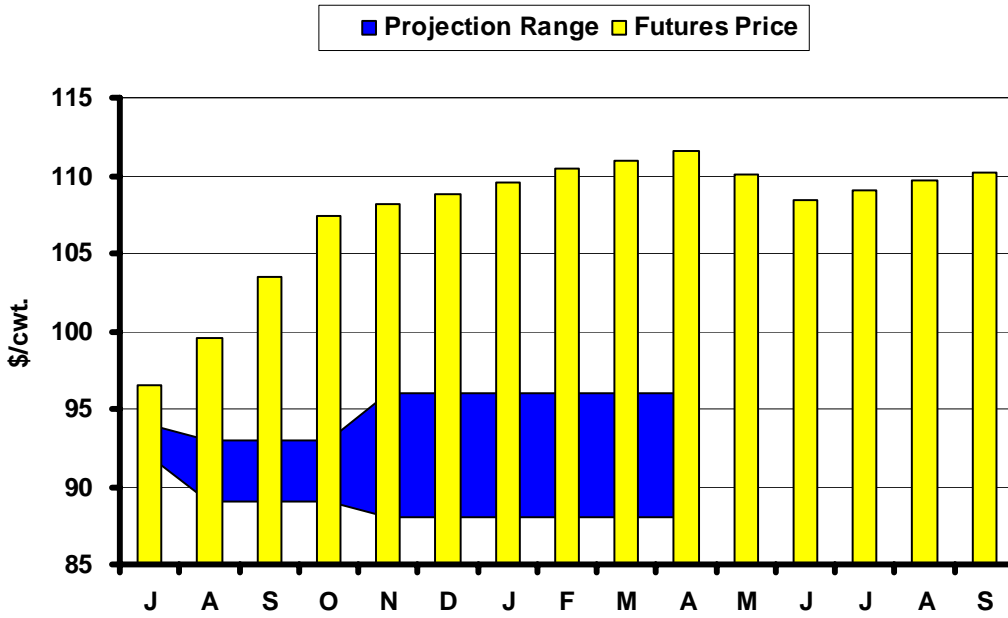


Sources: USDA-NASS & USDA-FSA

Fig. 4. 2008 Hay Supply w/CRP vs. 2007

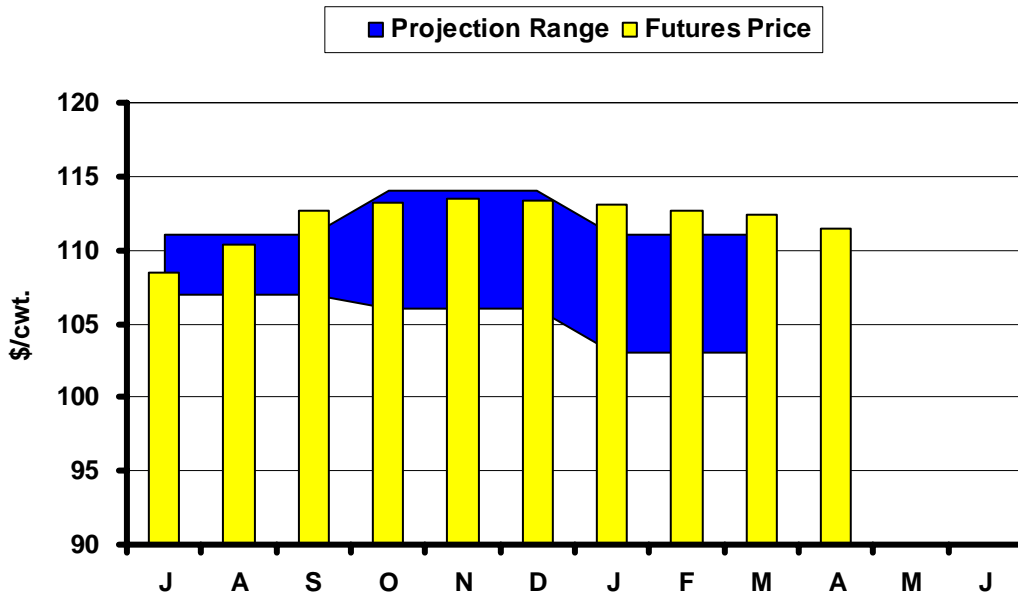


**Fig. 5. Live Cattle Futures and Projections**



Sources: CME & USDA-WASDE, June 10, 2008

**Fig. 6. Feeder Cattle Futures and Projections**



Sources: CME & USDA-ERS, June 17, 2008

**In the Chute**

July 11: Live Cattle Projections (WASDE)

July 25: *Cattle on Feed* (NASS)July 25: *Cattle* (NASS)**Live Cattle Futures, Monthly Average of Nearby Contract (\$/cwt.)**

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	80.56	80.61	74.68	77.60	73.71	73.80	73.37	79.80	86.14	97.25	95.47	92.09
2004	77.18	77.20	79.39	83.14	83.52	83.88	85.44	84.92	84.50	86.71	85.68	88.32
2005	89.88	89.92	88.89	94.79	85.62	83.00	79.37	80.78	85.70	89.49	91.46	94.07
2006	95.43	91.34	83.85	80.65	76.87	81.56	84.08	87.14	90.72	89.40	86.60	86.88
2007	91.55	93.34	98.30	98.07	92.35	89.06	91.93	92.65	96.21	94.92	95.39	93.28
2008	92.09	92.00	90.04	89.58	94.13							

Source: CME. Note: The data reflect the average of the daily closes.

**Sioux Falls Price - Slaughter Steers, Choice 2-3, 1300-1500# (\$/cwt.)**

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	75.60	76.13	76.44	79.75	79.38	76.44	76.25	81.13	90.69	101.85	105.00	91.94
2004	82.38	77.88	86.70	88.44	89.75	88.00	83.69	83.50	81.70	82.44	81.75	85.95
2005	88.50	86.25	90.65	92.31	88.88	84.00	79.44	78.30	84.65	86.44	89.58	91.25
2006	93.81	89.31	85.85	81.31	81.33	81.75	80.89	84.00	87.00	85.88	83.81	84.13
2007	86.42	89.44	95.31	95.75	95.10	86.25	87.75	89.30	91.00	89.08	90.75	89.50
2008	88.50	88.75	87.13	87.80	91.06							

Source: USDA-AMS.

**Sioux Falls Live Cattle Basis (\$/cwt.)**

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	-4.96	-4.48	1.76	2.15	5.67	2.64	2.88	1.33	4.55	4.60	9.53	-0.15
2004	5.20	0.68	7.31	5.30	6.23	4.12	-1.75	-1.42	-2.80	-4.27	-3.93	-2.37
2005	-1.38	-3.67	1.76	-2.48	3.26	1.00	0.07	-2.48	-1.05	-3.05	-1.88	-2.82
2006	-1.62	-2.03	2.00	0.66	4.46	0.19	-3.19	-3.14	-3.72	-3.52	-2.79	-2.75
2007	-5.13	-3.90	-2.99	-2.32	2.75	-2.81	-4.18	-3.35	-5.21	-5.84	-4.64	-3.78
2008	-3.59	-3.25	-2.91	-1.78	-3.07							

Note: The data reflect the difference between the monthly Sioux Falls' slaughter cattle price and the monthly average of the nearby live cattle futures prices.

**Sioux Falls Price - Slaughter Cows, Commercial 2-4 (\$/cwt.)**

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	42.20	45.50	46.75	51.00	54.17	54.50	54.90	57.50	60.44	60.75	58.33	60.50
2004	53.25	52.13	54.60	60.75	64.88	65.60	65.81	64.63	62.80	60.50	62.75	58.75
2005	61.67	58.47	64.40	65.50	67.38	66.75	64.56	58.50	60.17	57.38	58.95	59.88
2006	57.13	59.13	59.94	58.75	60.75	59.63	57.50	58.56	60.67	60.19	54.13	53.70
2007	52.50	55.58	56.83	62.75	62.88	62.25	64.00	64.30	62.50	60.83	60.50	58.25
2008	57.83	65.08	62.33	64.17	65.44							

Source: USDA-AMS. Note: December 2006 was estimated using the average spread over heavy breakers.

**South Dakota Stocker Cattle Prices, Monthly Averages (\$/cwt.)**

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	94.20	93.36	96.84	99.02	103.41	105.61	101.47	107.21	112.13	112.71	111.38	111.63
2004	110.80	108.25	114.59	117.22	123.88	135.57	133.68	141.20	129.81	126.50	121.59	122.32
2005	125.77	128.34	135.10	138.99	139.13	142.62	130.68	130.80	134.00	135.36	136.85	136.84
2006	140.59	138.06	136.10	131.46	130.54	131.67	134.42	133.57	137.13	123.49	113.16	115.15
2007	113.22	118.92	124.38	129.14	128.80	132.43	128.78	128.55	128.16	122.93	120.00	120.19
2008	117.32	123.80	122.93	119.80	122.79							

Source: USDA-AMS. Note: The data reflect a weighted average of 5-600# No. 1 medium and medium and large steers.

**CME Feeder Cattle Index (\$/cwt.)**

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	81.90	77.80	76.27	78.73	80.62	85.01	88.70	94.10	100.21	105.25	104.13	100.82
2004	89.40	86.96	90.10	93.70	103.21	112.00	116.15	117.54	114.15	113.82	108.89	106.22
2005	104.89	103.19	104.97	110.70	111.47	112.61	112.37	111.09	115.04	117.27	122.10	115.38
2006	113.60	109.60	103.69	101.67	97.13	110.16	114.62	115.70	117.94	110.26	100.71	99.85
2007	96.67	97.57	103.39	107.91	107.68	107.59	112.03	116.31	117.22	112.58	108.78	105.00
2008	98.79	102.79	100.14	100.48	107.15							

Source: CME. Note: The data reflect the average of the daily CME Feeder Cattle Index.

**South Dakota Stocker Cattle Basis Relative to the CME Feeder Cattle Index (\$/cwt.)**

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2003	12.30	15.56	20.57	20.29	22.79	20.60	12.77	13.11	11.92	7.46	7.25	10.81
2004	21.40	21.29	24.49	23.52	20.67	23.57	17.53	23.66	15.66	12.68	12.70	16.10
2005	20.88	25.15	30.13	28.29	27.66	30.01	18.31	19.71	18.96	18.09	14.75	21.46
2006	26.99	28.46	32.41	29.79	33.41	21.51	19.80	17.87	19.19	13.23	12.45	15.30
2007	16.55	21.35	20.99	21.23	21.12	24.84	16.75	12.24	10.94	10.35	11.22	15.19
2008	18.53	21.01	22.79	19.32	15.64							

**Futures Markets**

Live	6/20/2008	5/16/2008	Change	Feeder	6/20/2008	5/16/2008	Change
JUN 08	95.57	93.88	1.69	AUG 08	113.57	113.08	0.49
AUG 08	104.85	99.10	5.75	SEP 08	115.35	113.85	1.50
OCT 08	112.02	105.55	6.47	OCT 08	116.82	115.28	1.54
DEC 08	113.52	106.00	7.52	NOV 08	116.95	115.00	1.95
FEB 09	116.20	107.63	8.58	JAN 09	115.20	112.50	2.70
APR 09	117.65	108.75	8.90	MAR 09	115.55	111.50	4.05
JUN 09	115.20	105.50	9.70	APR 09	115.25	111.50	
AUG 09	116.20	106.15	10.05				
OCT 09	118.50						

Source: CME.